

## **LBNL - PROCUREMENT STANDARD PRACTICES**

**Section: 7 Acquisition Planning**

**Subject: 7.3 Lease-To-Ownership**

<b>PURPOSE:</b>	This standard practice (SP) establishes the procedures to be used when equipment is to be acquired under a lease-to-ownership (LTO) arrangement using either seller financing or third party financing from a bank or other financial institution.
<b>POLICY:</b>	The Laboratory may consider acquiring telecommunications and computer systems costing \$50,000 or more on an LTO basis if a lease versus purchase analysis demonstrates that it is cost effective.
<b>SCOPE:</b>	This SP applies to the acquisition of telecommunications and computer systems costing \$50,000 or more by the LTO method.
<b>DEFINITION:</b>	
<b>Buy-Down Payments</b>	Buy-down payments are one or more payments made by the Laboratory in addition to the scheduled lease payments. Buy-down payments either 1) reduce the amounts of subsequent lease payments, 2) are applied against future individual lease payments, 3) reduce the term of the lease, or 4) result in some combination of 1, 2, or 3.
<b>Equipment Order</b>	An equipment order is a purchase order issued to a manufacturer or reseller for the acquisition of computer or telecommunications equipment.
<b>Lease-To-Ownership (LTO)</b>	An LTO is the most common form of capital lease. An LTO is a type of lease-purchase arrangement in which a specific number of monthly payments (from 12 to 60 months) usually of equal size, are made for a specified term, shortly after which title is transferred to the U.S. Government, either automatically or for a nominal fee. .
<b>LTO Agreement</b>	An LTO agreement is an agreement with an equipment seller to provide LTO financing for specific equipment being provided by that same seller. Such financing is called seller financing.
<b>LTO Order</b>	An LTO order is a purchase order, issued pursuant to a Master LTO Agreement, which provides LTO financing for equipment purchased from a separate seller. Such financing is called third party financing.
<b>LTO Specialist</b>	The LTO Specialist is the procurement specialist assigned the responsibility for performing lease versus purchase analyses, and for placing and administering Master LTO Agreements and their resulting LTO Orders.
<b>Lease-Versus-Purchase Analysis</b>	Lease-versus-purchase analysis is the cost analysis used to determine whether the purchase method or lease method is most appropriate using present value factors.

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### **Master LTO Agreement**

A Master LTO agreement is a competitively awarded multi-year blanket LTO agreement which establishes the provisions for LTO transactions. Several Master LTO Agreements are active at any given time. Holders of Master LTO Agreements compete against one another and against seller financing (if any is offered) by quoting LTO financing rates and origination fees whenever the Laboratory has an LTO requirement.

### **Present Value Analysis**

A present value analysis is a mathematical method of factoring in the time value of money in order to compare LTO financing quotations and/or methods as if all costs were to be incurred on the basis of today's economy.

### **Purchase Option**

A purchase option is payment to payoff the outstanding capital balance of the lease prior to the full term of the lease. Purchase options should not be subject to prepayment penalties or fees.

### **Origination Fee**

The origination fee is a service charge added to LTO financing. The origination fee is generally paid at the same time as, and in addition to, the first LTO financing payment. The origination fee is usually quoted as a percentage of the total equipment purchase price.

## **PROCEDURES:**

### **Determining If Equipment Should be Acquired by the LTO Method**

For purchases of computer or telecommunications equipment using the LTO method, the requestor shall ask the LTO specialist to perform a lease-versus-purchase analysis to verify that the LTO method is cost effective for the required equipment.

### **Requisitioning**

The requester shall note on the requisition that the equipment is to be obtained by LTO financing, indicating the term of the lease and any anticipated buy-down payments. The requisition may be accompanied by a lease-versus-purchase analysis.

### **Taxability**

LTO transactions are not subject to California sales and use tax, and are not subject to California property tax if the equipment is to be used exclusively for the University of California, and if a special exemption claim is filed with the county assessor within 120 days of the commencement date of the lease (see the paragraph below entitled "Notification to File for Property Tax Exemption").

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<b>Solicitation</b>	Solicitations for equipment must include notification of the Laboratory's intent to acquire the equipment on an LTO basis, and may offer sellers a chance to quote LTO financing in addition to the equipment. Procurement specialists shall include the appropriate LTO solicitation language and a sample LTO Agreement obtained from the LTO Specialist, in such solicitations.
<b>Request for LTO Specialist to Obtain LTO Financing</b>	After the solicitation process, regardless of whether the successful quoter also quoted LTO financing, the procurement specialist shall request the LTO specialist to evaluate LTO financing. This request will be accompanied by the LTO financing requisition, the equipment Request for Quotation (RFQ) or Request for Proposal (RFP), and the Seller's Proposal.
<b>Selection of LTO Financing Source</b>	The LTO specialist may determine that the proposed equipment seller's financing is reasonable, otherwise finance rates and origination fees from all firms that have Master LTO Agreements with the Laboratory will be requested. The LTO specialist will then perform a present value analysis on the financing rates and origination fees quoted by firms with Master LTO Agreements, and by the equipment seller if it also submitted a financing quotation. After comparing the results of this analysis, the LTO specialist will select the firm offering the most favorable LTO financing.
<b>Approval by the U.C. Treasurer's Office</b>	The LTO specialist will obtain approval from the U.C. Treasurer's Office for the LTO financing rate before notifying the equipment procurement specialist about the selected LTO financing source. The <i>U.C. Treasurer's Office LTO Approval</i> form shall be utilized for such purposes.
<b>Placement of Equipment Order</b>	The procurement specialist shall include standard provisions in the purchase order regarding the LTO financing arrangement based on whether seller financing or third party financing is selected. The procurement specialist will place the equipment order.
<b>Placement of LTO Order</b>	<p>If LTO financing is to be furnished by a third party, the LTO specialist will provide the requester with an estimated payment schedule for the third party financing, and ask the requester to provide a requisition for the LTO financing. The LTO specialist will use the estimated payment schedule and a copy of the equipment purchase order as the basis to execute the LTO order.</p> <p>Signature authority for placing LTO Orders is based on the total amount of the interest plus the origination fee, and does not include the purchase price of the equipment.</p> <p>If financing is to be furnished by a third party:</p>
<b>Equipment</b>	

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### **Acceptance and Payment Disbursement**

After the equipment has been delivered, inspected, tested, and accepted by the requesting organization, the procurement specialist will notify the LTO specialist who will prepare the final payment schedule based on the date the equipment was accepted by the Laboratory. By e-mail, the LTO specialist will then request the third party financing firm to pay the equipment seller's invoice and submit its first financing invoice to the Laboratory. This request will be accompanied by the equipment seller's invoice, the final payment schedule, and an acceptance letter signed by the LTO Specialist.

If financing is to be furnished by the equipment seller:

After the equipment has been delivered, inspected, tested, and accepted by the requesting organization, the procurement specialist will sign and send the equipment seller an acceptance letter requiring the equipment seller's signature, and request the equipment seller to submit its first financing invoice.

### **Notification to File for Property Tax Exemption**

Upon commencement of the lease payment period, the lessor must be notified to file for property tax exemption. This notification will be done by the LTO specialist for a third party financed LTO, and by the procurement specialist for a seller financed LTO.

To notify the lessor to file for property tax exemption, the procurement specialist or the LTO specialist (see paragraph above to determine which) will complete the affidavit on page 2 of Alameda County's *Lessor's Exemption Claim* form, and then send two copies of this form to the lessor. In a cover letter, the Laboratory will instruct the lessor to fill-out the rest of the *Lessor's Exemption Claim* form and send it to the Alameda County Assessor's Office within 120 days of the commencement date of the lease. After reviewing the *Lessor's Exemption Claim* form, the Alameda County Assessor's Office shall notify the lessor that the equipment is exempt from the property tax normally assessed a lessor leasing equipment in Alameda County. The lessor will be required to annually report the status of the lease on forms provided by Alameda County.

### **Final Payment and Close Out of LTO Financing**

Upon completion of all obligations under a third party LTO, the LTO specialist will obtain a bill of sale relinquishing all of the seller's rights and interests in the equipment, and transfer title to the Government. This bill of sale is the closing document for an LTO transaction. Upon receipt of the bill of sale, the LTO specialist will notify Property Management of the date that title to the equipment passed to the Laboratory. If the LTO is seller financed, the procurement specialist will notify Property Management as described above.

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### **REVIEW/ APPROVALS:**

**DOE** For capital leases, LBNL has blanket DOE approval to handle LTO transactions for computer and telecommunications equipment in accordance with authorization by the DOE Chief Information Officer and Chief Financial Officer, in a 11/27/95 letter from DOE Headquarters.

**U.C. Treasurer's Office** The U.C. Treasurer's office will approve the LTO financing rate before the Laboratory enters into any purchase order for equipment to be purchased using LTO financing.

### **RESPONSIBILITIES:**

**Requester** The requester is responsible for:

- Consulting with the LTO specialist to determine if the telecommunication or computer equipment can be acquired by the LTO financing method;
- Adding a note on the requisition that the equipment is to be obtained by the LTO financing method, term of the lease (i.e., number of payments required), and details about any planned buy-down payments;
- Attaching a copy of the lease versus purchase analysis to the requisition;
- Assuring that the Laboratory's requesting organization provides written confirmation to the procurement specialist that the equipment was delivered, inspected, tested, and is acceptable to the Laboratory; and
- Providing the LTO specialist a separate requisition for LTO financing, as necessary.

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### **Procurement Specialist**

The procurement specialist is responsible for:

- Contacting the LTO specialist to obtain special LTO solicitation language and a sample copy of the LTO agreement;
- Issuing the solicitation for the telecommunication or computer equipment;
- Requesting the LTO specialist to secure LTO financing;
- Placing the purchase order for the telecommunication or computer equipment, and providing a copy to the LTO specialist whenever a third party is providing the LTO financing;
- Notifying the LTO specialist that the equipment has been delivered, inspected, tested, and accepted whenever a third party is providing the LTO financing; and
- If the seller is providing the LTO financing:
  - Signing and sending the equipment seller an acceptance letter after the equipment has been delivered, inspected, tested, and accepted by the Laboratory requesting organization;
  - Requesting the seller submit its first financing invoice;
  - Notifying the lessor to obtain a property tax exemption from Alameda County; and
  - Notifying Property Management when the LTO period begins, whenever there are modifications to the LTO order, and when the final bill of sale has been received.

### **LTO Specialist**

The LTO specialist is responsible for:

- Assisting the requester in determining if the telecommunication or computer equipment can be obtained by the LTO financing method;
- Providing the requester with a lease versus purchase analysis;
- Providing the procurement specialist with special LTO solicitation language and a sample copy of the LTO Agreement;
- Soliciting LTO financing rates from holders of Master LTO Agreements when necessary;
- Performing a present value analysis on all financing quotations to determine which firm offers the most favorable LTO financing;

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- Obtaining approval from the U.C. Treasurer's office for the LTO financing rate;
- Notifying the procurement specialist regarding the selected source of LTO financing and provide him/her with special LTO language to include in the equipment purchase order based on whether the LTO financing will be provided by the seller or by a third party;
- Placing LTO order, if third party LTO financing will be used;
- Notifying the procurement specialist that the LTO order has been placed; and
- If financing was furnished by a third party:
  - Preparing a final payment schedule and a formal Acceptance Certificate after the Laboratory requesting organization has confirmed that the equipment was satisfactorily delivered, inspected, and tested;
  - Requesting the third party LTO financing firm to pay the equipment seller's invoice and to submit its first financing invoice; and
  - Requesting the firm providing the LTO financing to obtain a property tax exemption from Alameda County.

**References:** Prime Contract Clause I.114 (r) – Contractor Purchasing System